



County of Los Angeles CHIEF EXECUTIVE OFFICE

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Chief Executive Officer

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April 6, 2011

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name and title.

RESPONSE TO BOARD ORDER OF FEBRUARY 15, 2011 TO WORK WITH THE COUNTY'S SACRAMENTO ADVOCATES TO PURSUE POSITIONS RELATING TO CORPORATION TAX EXPENDITURES IN THE STATE BUDGET

On February 15, 2011, your Board approved a motion instructing the Chief Executive Officer to work with the County's Sacramento advocates to pursue the following positions: 1) broad analysis of the role of tax expenditures in the State Budget and the implications for revenue losses; 2) evaluation of the current tax expenditures that are part of the tax code, including a thorough assessment of their respective relevance and appropriateness; and 3) consideration of reduced corporation tax expenditures as a FY 2011-12 State Budget solution and as part of any discussions regarding revenue streams.

The Sacramento advocates have sought to encourage an analysis of the function of tax expenditures in the State Budget, an assessment of the appropriateness of tax expenditures, and consideration of reduced corporation tax expenditures as one of the potential solutions to address the State's structural budget deficit. The Sacramento advocates have approached offices of the Los Angeles County Legislative Delegation, the Department of Finance (DOF), and the Legislative Analyst's Office to raise the issue of examining corporation tax expenditures as one revenue generating option to address the State Budget shortfall in FY 2011-12. Discussions with Legislative staff were generally broad and comprehensive as the Legislature has not acted on legislation specific to reduce tax expenditures as a State Budget solution. In addition, the

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Sacramento advocates have communicated your Board's directive to the California State Association of Counties (CSAC), Urban Counties Caucus (UCC), League of California Cities, and California Budget Project. The Sacramento advocates indicate that Assembly Member Davis has expressed interest in meeting with County staff and his staff have requested specific information on which corporation tax expenditures should be a part of a State Budget solution. The DOF, CSAC, UCC, California Budget Project also have expressed an interest in participating in the review of corporation tax expenditures.

On March 29, 2011, Governor Brown called a halt to State Budget negotiations with Republican legislators. While the Governor indicates his support of proposals for pension reform, regulatory reform and a spending cap, progress on these reform issues was interrupted when Republican legislators insisted on an additional set of requests for the Governor to agree to before agreeing to vote for a measure to place a ballot initiative for voters to decide on tax extensions. Although State Budget negotiations have come to a standstill, the Governor sent a letter to Senate Republican Leader Bob Dutton indicating that he remains willing to work on the three main reforms in the context of his balanced budget plan, if this would secure the necessary Republican votes to allow the proposed tax extension to be decided by the voters. The Sacramento advocates indicate that the State Budget impasse provides a limited opportunity for an examination of corporation tax expenditures as part of the State Budget solution.

The Governor's approval of budget-related legislation on March 24, 2011 enacted approximately \$11.2 billion in solutions to address \$26.6 billion of the State Budget deficit. However, the Governor's approval of this portion of the FY 2011-12 State Budget package does not reduce the necessity to find sustained sources of tax revenue, because key elements of the Governor's Budget proposal are still pending action by the Legislature, including legislation on the constitutional amendment, a Special Election to allow a public vote of the five-year tax extension, elimination of redevelopment agencies for a State General Fund savings of \$1.7 billion, and elimination of Enterprise Zone tax incentives and the optional single sales factor.

Neither the Senate nor the Assembly have passed SB 79/AB 103, the Taxation, Personal Income and Corporation Taxes Trailer Bills, which would enact the Governor's Budget proposal to eliminate the Enterprise Zone Program and the single sales factor election. The Governor's proposal to eliminate tax incentives associated with Enterprise Zones and various other economic incentive areas is estimated to generate additional revenues of \$924.0 million to the State. The Governor also proposes to eliminate apportionment factor options for businesses to calculate taxes and to require that all corporations use the single sale factor method, except those corporations engaged in qualified agricultural, extraction or banking activities. The proposal to mandate a single

Each Supervisor
April 6, 2011
Page 3

sales factor apportionment method for most corporations is estimated to generate additional revenues of \$1.4 billion to the State.

According to the Sacramento advocates, if there is no agreement reached on the remaining State Budget proposals, there would be a need to identify new revenues and/or additional expenditure reductions to close the remaining \$15.0 billion State Budget gap. In addition, even if the Governor secures the required number of votes in the Legislature for the initiative ballot to extend the current tax rate for five years and the public votes to pass the tax extensions, there still would be a need to find long-term revenues beyond the five-year tax extension period.

The Sacramento advocates will continue to seek to include the review and evaluation of tax expenditures and the consideration of reduced corporation tax expenditures as a FY 2011-12 State Budget solution and part of any discussions regarding revenue streams.

We will continue to keep you advised.

WTF:RA
MR:LY:sb

c: Executive Office, Board of Supervisors
County Counsel